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THIS AMENDMENT:

2006 AUG 21

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AZ CORP COMMISSION  
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**GLEASON PROPOSED AMENDMENT #1**

DATE PREPARED: August 21, 2006

COMPANY:

Arizona-American Water Company

DOCKET NOs.:

WS-01303A-05-0170

OPEN MEETING DATES:

August 22 and 23, 2006

Arizona Corporation Commission

**DOCKETED**

**AUG 21 2006**

DOCKETED BY

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AGENDA ITEM: U-6

Page 10, STRIKE lines 13 through 26

Page 11, STRIKE lines 1 through 11

INSERT new Findings of Fact to read:

"34. On balance, Arizona-American has shown that its limited support for the Service Line Programs is in the public interest with the conditions set forth below. These are popular programs in other jurisdictions and no evidence was presented of any significant issues that have arisen in the jurisdictions where the local utility supports the Service Line Programs. Further, the Company's participation will ensure that more customers are given the opportunity to participate in the Service Line Programs and will benefit participants by providing them with the popular customer bill-pay option and additional local support.

35. The Commission has already considered Staff's concerns about Arizona-American sharing limited customer information with its affiliates. The Commission authorized this type customer information sharing in Decision No. 65453 approving RWE's acquisition of American Water Works, Inc., Arizona-American's corporate parent. That Decision included two relevant conditions (Nos. 9 and 10):

'#9. If Arizona-American ever plans to share with its affiliates, or other entities, any information made available to Arizona-American solely by virtue of the company/customer relationship, such as billing information and services received by a customer, it shall notify the Commission at least 180 days in advance. Such notice shall, at a minimum, identify the intended use of the information. Arizona-American shall also, at the time of the filing of the 180-day notice, file a tariff setting forth appropriate customer notification procedures to inform customers about the sharing.

#10. If Arizona-American ever shares any customer information with affiliates, or other entities, it shall maintain accurate records of revenues earned as a result, and make those records available to Staff upon request with ten days' notice. For the purposes of this condition, and Condition Nine above, customer information that is prohibited from disclosure does not include a customer's name, address or service location, and telephone number. (Emphasis added.)

We see no reason to depart from this conclusion, particularly when the result would be that AWR would be forced to rely on inaccurate commercial mailing lists and, as a result, fewer of Arizona-American's customers would become aware of the Service Line Programs. Further, as discussed below, even though it is not required by the RWE acquisition order, AWR has agreed to pay Arizona-American for the use of its customer list at the rate of \$0.04875 per customer initially, and \$0.03247 per customer for updates. This will provide additional revenue to Arizona-American to offset its future revenue requirements.

36. To address specific Staff concerns, the Companies agreed to the following modifications to the Affiliate Agreement:

- a. The services that Arizona-American and AWR can contract for are now limited to those specifically related to water and sewer line Programs.
- b. Any apparent endorsements of the Programs by Arizona-American have been deleted.
- c. The Agreement now includes a definition of fully allocated or fully distributed costs as including direct costs, a contribution to common costs, and overhead.
- d. AWR must pay Arizona-American for the use of its customer list at the rate of \$0.04875 per customer initially, and \$0.03247 per customer for updates.

The revised Affiliate agreement was submitted at the hearing as Exhibit A-2.

37. AWR submitted revised promotional material as Exhibits B and C to the Companies' Direct Testimony. Consistent with Staff Recommendation No. 5, to avoid giving the impression that Arizona-American was promoting the Service Line Programs, AWR removed all references to Arizona-American, except 'in the form of references to payment of Program fees via customer water bill and specific Program terms and conditions.' Staff raised several other issues concerning the promotional material. To address these issues, AWR further revised the promotional material to include certain requested disclaimers and submitted these at the hearing as Exhibits A-3 and A-4.

38. To ensure that Arizona-American's participation in the Service Line Programs will be in the public interest, we will condition our approval of Arizona-American's participation as follows:

a. Any net income derived by Arizona-American from the services it provides AWR for the Programs shall be considered above-the-line for ratemaking purposes.

b. Within 30 days of the effective date of this Decision, Arizona-American and AWR shall execute a modified Affiliate Agreement in the form submitted in the hearing as Exhibit A-2 and file an executed copy in this docket.

c. AWR's promotional material shall be in the forms submitted at the hearings as Exhibits A-3 and A-4.

d. The Commission reserves the right to examine the books and records of AWR in connection with the Programs."

Page 11, STRIKE line 17 and INSERT a new Conclusion of Law No. 3 to read:

"3. Arizona-American's participation with its affiliate AWR in the provision of the Service Line Programs is reasonable and should be approved as conditioned in Finding of Fact No. 38."

Page 11, STRIKE LINES 21 and 22 and INSERT new ordering paragraphs to read:

"IT IS THEREFORE ORDERED that Arizona-American's participation with its affiliate AWR in the provision of Service Line Programs is approved, provided that Arizona-American complies with the conditions set forth in Finding of Fact No. 38.

IT IS FURTHER ORDERED that if Arizona-American does not timely comply with the Conditions set forth in Finding of Fact No. 38, this approval shall be null and void after due process."

Make all conforming changes.